

M&A Quarterly Report

Q4 2003

Overview

The Canadian M&A market experienced renewed momentum in the last six months of 2003 after a weak performance in the first six months of the year. The total value of announced transactions in the second half of 2003 was \$55 billion, nearly double the \$28 billion in the first half, on a comparable number of deals. The second half improvement was driven by the return of the mega-deal (transactions over \$1 billion) with 8 mega-deals valued at \$33 billion, compared to only 4 mega-deals valued at \$6 billion in the first six months. The total number of announced deals in 2003 declined to 833 from 855 in 2002 and dollar volumes also fell to \$83 billion from \$91 billion.

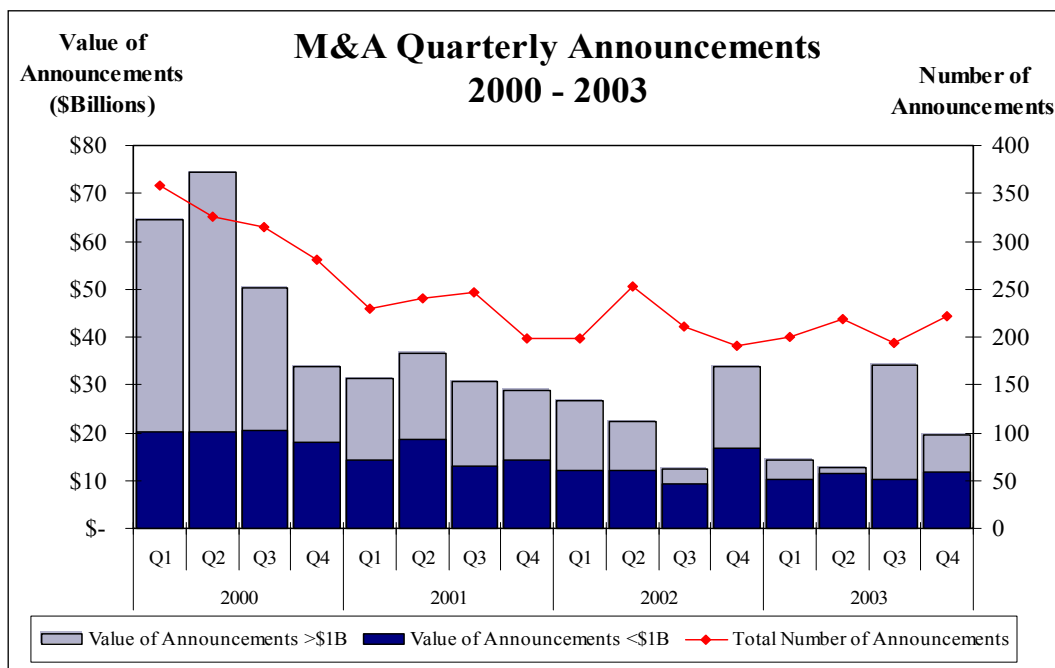
Industry Sector Activity

Several of the largest sectors by value were driven by a few mega-deals. **Financial Services** benefited from **Manulife Financial Corporation's** announced \$15 billion acquisition of **John Hancock Financial Service, Inc.** in September. **Industrial Products** saw significant gains due in part to **Alcan Inc.'s** \$6.3 billion announced purchase of **Pechiney SA**.

Communications & Media total deal value increased 88% to \$10 billion due to three mega-deals including **R.R. Donnelley & Sons Co.'s** \$4.9 billion November acquisition of **Moore Wallace Inc.** after that company was previously formed in January via **Moore Corp.'s** \$1.6

billion acquisition of **Wallace Computer Services, Inc.** **Merchandising** was bolstered by **Alimentation Couche-Tard Inc.'s** continued expansion into the U.S. convenience store market through its announced \$1.1 billion purchase of **Circle K Corp.** and **Wittington Investments Ltd.'s** \$1.4 billion acquisition of **Selfridges PLC** in the U.K.

Oil & Gas continued to be relatively active with 104 transactions, the same number as in 2002, fuelled by strong underlying commodity prices, although smaller transaction sizes caused dollar volumes to decline 58% to \$9 billion. The continued rally of gold bullion prices drove activity in the **Gold & Silver** sector up 50%,



although total deal value fell 57% to \$1.9 billion. The **Utilities** sector was particularly hard hit in 2003 as total transaction value fell to \$4 billion from \$17 billion the previous year and the number of transactions dropped to 40 from 56.

Strength in the Mid-Market

The mid-market continued to demonstrate strength throughout 2003 as the number of transactions between \$1 million and \$500 million increased to 573 from 549. Total deal value also increased to \$36 billion, up from \$35 billion in 2002.

Cross Border Transactions

Cross border activity continued to play a significant role in the Canadian M&A landscape. With 8 of the year's 12 mega-deals having an international flavour, the dollar value of cross-border transactions increased 35% to \$62 billion up from \$46 billion in 2002, even though the total number of deals declined to 364 from 408. For the second year in a row, Canadian companies, encouraged by the increased purchasing power of the Canadian dollar, continued their buying spree of foreign companies, with 267 acquisitions totalling \$49 billion, more than double the number and value of foreign acquisitions of domestic companies. Almost \$28 billion worth of these acquisitions involved U.S. targets, a 152% increase from \$11 billion the prior year. Of note, the number of acquisitions of Canadian companies by U.S. companies declined 40% this year to 46 transactions worth \$10.7 billion, compared to 77 transactions totalling \$6.9 billion last year.

ACTIVITY GROUPED BY INDUSTRY: Y-T-D TO DECEMBER 31

INDUSTRY GROUPS	2003		2002	
	# of Deals	Value \$Millions	# of Deals	Value \$Millions
Industrial Products	183	15,500	208	6,991
Real Estate	115	5,718	90	6,988
Oil & Gas	104	8,611	104	20,631
Consumer Products	86	3,016	89	6,232
Financial Services	76	20,369	80	13,103
Gold & Silver	57	1,949	38	4,552
Communication & Media	47	10,420	53	5,549
Merchandising	45	4,102	54	1,822
Utilities	40	3,819	56	17,282
Transportation & Environ.	35	3,358	33	1,406
Metal & Minerals	23	2,969	25	2,671
Paper & Forest Products	13	1,427	20	2,117
Pipelines	9	1,994	5	2,154
TOTAL	833	83,252	855	91,498
<i>Technology Watch:</i> (subsector of Ind. Prod.)	34	1,000	33	981

CROSS-BORDER TRANSACTIONS: Y-T-D TO DECEMBER 31

	2003		2002	
	# of Deals	Value \$Millions	# of Deals	Value \$Millions
Canadians Acquiring				
Foreign Companies	229	41,601	240	18,279
Cdn Co's from Foreigners	38	6,998	34	13,637
Total	267	48,599	274	31,916
Top Foreign Target Country of Canadian Acquirors				
United States	137	27,718	141	11,002
Foreigners Acquiring				
Canadian Companies	65	11,650	107	9,784
Foreign Co's from Cdn	32	2,227	27	4,737
Total	97	13,877	134	14,521
Top Foreign Acquiror of Canadian Located Companies				
United States	46	10,715	77	6,841

BREAKDOWN OF ACTIVITY: Y-T-D TO DECEMBER 31

Size	2003				2002			
	# Deals	%	Value \$ Millions	%	# Deals	%	Value \$ Millions	%
Undisclosed	236	28	N/A		271	32	N/A	
1m-100m	457	55	10,497	13	437	51	11,003	12
101m-250m	80	10	12,697	15	78	9	12,737	14
251m-500m	36	4	12,863	15	34	4	11,349	12
501m-1b	12	1	8,725	10	19	2	13,494	15
>1b	12	1	38,471	46	13	2	44,161	48

Mergers & Acquisitions in Canada
Largest Transactions Announced During Q4-2003

Value	(*Estimate)	Name	Role	Announced
\$4,855,000,000	*	R. R. Donnelley & Sons Co. Moore Wallace Inc.	Acquiror Target	9-Nov-2003
\$1,600,000,000		OntZinc Corporation Pasminco Ltd.	Acquiror Target	28-Nov-2003
\$1,120,000,000		Alimentation Couche-Tard Inc. Circle K Corp. ConocoPhillips Co.	Acquiror Target Vendor	6-Oct-2003
\$1,000,000,000		Canadian National Railway Co. BC Rail Ltd.	Acquiror Target	25-Nov-2003
\$630,000,000		Canfor Corp Slocan Forest Products Ltd.	Acquiror Target	25-Nov-2003
\$500,000,000		Canadian National Railway Co. Railway lines (U.S.) Great Lakes Transportation LLC.	Acquiror Target Vendor	20-Oct-2003
\$500,000,000	*	Royal Bank of Canada Provident Life and Accident Insurance Co. UnumProvident Corp.	Acquiror Target Vendor	18-Nov-2003
\$500,000,000	*	Oil & gas assets (Can.) El Paso Energy Corp.	Target Vendor	14-Nov-2003
\$449,186,000		EOG Resources Inc. Oil & Natural Gas assets (Alberta) Husky Energy Inc.	Acquiror Target Vendor	1-Oct-2003
\$398,300,000	*	Harvest Partners Inc. Lightyear Capital LLC New Flyer Industries Ltd. KPS Special Situations Fund	Acquiror Acquiror Target Vendor	16-Dec-2003
\$364,673,000		Celestica Inc. Manufacturers Services Ltd.	Acquiror Target	15-Oct-2003
\$318,500,000		Calloway Real Estate Investment Trust Real estate portfolio (Can.) First Pro Shopping Centers Inc.	Acquiror Target Vendor	25-Nov-2003
\$307,000,000		Open Text Corp. Ixos Software AG	Acquiror Target	21-Oct-2003
\$275,000,000		Bonavista Energy Trust Oil & gas properties (Alb.) Taurus Exploration Ltd.	Acquiror Target Vendor	18-Nov-2003

Source: Crosbie & Company Inc.